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FM AMEMBASSY KATHMANDU  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0125  
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 6937  
RUEHLM/AMEMBASSY COLOMBO PRIORITY 7256  
RUEHKA/AMEMBASSY DHAKA PRIORITY 2578  
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 5300  
RUEHLO/AMEMBASSY LONDON PRIORITY 6445  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 3011  
RUEHCI/AMCONSUL KOLKATA PRIORITY 4588  
RUEHGV/USMISSION GENEVA PRIORITY 2308  
RUCNDT/USMISSION USUN NEW YORK PRIORITY 3505  
RUEKJCS/SECDEF WASHDC PRIORITY  
RHMFISS/CDR USPACOM HONOLULU HI PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 000365

SIPDIS

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TAGS: [PGOV](#) [MARR](#) [PREL](#) [PTER](#) [NP](#)

SUBJECT: NEPAL: SCENARIOS, WINNERS AND LOSERS AFTER MAY 3-4  
EVENTS

REF: KATHMANDU 356 AND PREVIOUS

Classified By: Ambassador Nancy J. Powell. Reasons 1.4 (b/d)

Summary  
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11. (C) With Prime Minister Dahal's resignation (septels), the current Maoist-led coalition is finished. Replacements include a coalition of the Maoists and the Madhesi People's Rights Forum, a national coalition or a Nepali Congress or Communist Party of Nepal - United Marxist Leninist-led coalition. Prime Minister Dahal may have solidified his base with the hardline faction in his party, but he has been damaged. Nepal's peace process and people look to be the biggest losers.

Events of May 3 and May 4  
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12. (U) After two weeks of failing to persuade his coalition to join the United Communist Party of Nepal - Maoist (UCPN-M) in firing Chief of Army Staff (COAS) General Rookmangud Katawal, Prime Minister Pushpa Dahal and the Maoist ministers voted unilaterally at a cabinet meeting on May 3 to remove him. The PM informed General Katawal he was removed and appointed Katawal's deputy, Lt. General Kul Khadka, as Acting Chief. President Ram Baran Yadav subsequently issued a letter directing Katawal to continue in office. Ministers from the second-largest party in government, the Communist Party of Nepal - United Marxist Leninist (UML), and from a minor Madhesi-based party submitted their resignation. On May 4, PM Dahal accepted those resignations and in an afternoon address to the nation announced his own resignation. Details of these and other related events are reported septel.

Maoist-Led Government Bowing Out  
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13. (C) PM Dahal's address described all of the challenges his Maoist-led government had faced over the past eight months from internal and external groups who he claimed were opposed to Nepal's democracy. In his speech, which had strong nationalist overtones, he insisted that Nepal would no longer bow down to national and international "forces" and condemned President Yadav and those who had encouraged him to oppose

the Maoist effort to assert civilian supremacy by firing General Katawal. According to the President's staff, the President will meet with his advisors before making a decision on next steps. President Yadav is expected, however, to accept the resignation. Under the Interim Constitution, the resignation of the Prime Minister automatically dissolves the government.

#### Non-Maoist Coalition Possible

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¶4. (C) Unlike the 1990 Constitution, the Interim Constitution does not spell out the procedure the Head of State is to follow in constituting an interim or new government. Theoretically, President Yadav could ask any of the 24 parties in the Constituent Assembly to assemble a government. More likely, he will consult with the leaders of all the major parties, including the UCPN-M, to find out which party is likely to command a majority in the 601-member assembly. The Nepali Congress leads the opposition and is the second-largest party in the CA, but the President is not required to approach the NC first. One possibility, which was under discussion prior to the events of May 3 and 4, is a UML-led government headed by former General Secretary Madhav Kumar Nepal. M.K. Nepal is considerably closer to the NC than the current leader of the UML, Jhalanath Khanal. While a minority government cannot be ruled out, the UML and NC would need the MPRF, as well as several small parties, to reach the magic 301-member mark.

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#### Potential New Maoist-Led Government

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¶5. (C) Shymananda Suman, Foreign Policy Advisor to MPRF President and Foreign Minister Upendra Yadav, told Emboff May 4 (prior to the Prime Minister's announcement), that the Forum opposed the decision to sack the Army chief, but was undecided about leaving the government. Suman said that the MPRF would find a restructured Maoist-led cabinet in which it was the second-largest party appealing for two reasons. First, with the UML out of the picture, the Forum would be entitled to more ministers, and more important ministries. Second, while the Maoists do not support the MPRF's call for a single Madhes state across the entire Terai, the Maoist concept of several Terai states running east to west is closer to the Forum's federal vision than the NC's and UML's stated preference for states running south to north. Suman conceded, however, that the MPRF was internally divided. No decision would be made until the party's central committee could meet to deliberate, and no meeting could take place until the party president returned from overseas, at the earliest on May 6. A Maoist - Forum alliance would also require several small partners to add up to 301.

#### National Coalition?

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¶6. (C) The NC Central Committee voted as recently as April 28 not to join a national unity government with the Maoists, UML and MPRF. PM Dahal's resignation re-opens the issue. The advantage of a national coalition now is that it might make the drafting of a new constitution simpler and could help share the pain of any difficult political compromises. A faction of the NC, including former Finance Minister Ram Mahat and Sujata Koirala, the daughter of party president and former PM G.P. Koirala, are believed to be eager to go back into government. The NC has yet to decide, however, if and under what conditions it would do so.

#### Winners and Losers

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¶7. (C) Prime Minister Dahal's decision to resign and the staunchly nationalistic speech in which it was imbedded will

certainly win him points with party hardliners. His nationalistic tone and thinly veiled criticism of India (and presumably also the United States) will appeal as well to those who resent what they see as India's constant meddling. That said, Dahal's resignation after less than 9 months in office also has echoes of the short-lived governments that were the bane of Nepal in the late 1990s and the early part of the current decade. How President Yadav will appear in this controversy remains to be seen. PM Dahal accused him of perpetuating the bad tradition of the monarchy where the Head of State took on executive powers, instead of remaining properly ceremonial.

Comment

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18. (C) The biggest loser from the events of May 3 and 4 looks to be Nepal's peace process and people. An interim government will eventually be established, but will not be in a position anytime soon to address the real problems its citizens face. These have little to do with politics and are focused almost exclusively on surviving from day to day. Post will report septel on possible U.S. policy options in the changed circumstances.  
POWELL